BORGWARNER INC
Form 10-Q
October 25, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q
QUARTERLY REPORT
(Mark One)
þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number: 1-12162
BORGWARNER INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3404508
State or other jurisdiction of Incorporation or organization	(I.R.S. Employer Identification No.)
3850 Hamlin Road, Auburn Hills, Michigan	48326
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (248) 754-9200
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES þ NO o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES þ NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO þ
As of October 19, 2018, the registrant had 208,272,716 shares of voting common stock outstanding.

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FORM 10-Q
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions)	September 30, 2018	December 31, 2017
ASSETS		
Cash	$361.8	$545.3
Receivables, net	2,061.1	2,018.9
Inventories, net	810.3	766.3
Prepayments and other current assets	192.9	145.4
Assets held for sale	64.5	67.3
Total current assets	3,490.6	3,543.2
Property, plant and equipment, net	2,827.8	2,863.8
Investments and other long-term receivables	610.3	547.4
Goodwill	1,856.5	1,881.8
Other intangible assets, net	450.1	492.7
Other non-current assets	481.1	458.7
Total assets	$9,716.4	$9,787.6
LIABILITIES AND EQUITY		
Notes payable and other short-term debt	$50.7	$84.6
Accounts payable and accrued expenses	2,009.2	2,270.3
Income taxes payable	9.8	40.8
Liabilities held for sale	29.9	29.5
Total current liabilities	2,099.6	2,425.2
Long-term debt	2,085.6	2,103.7
Other non-current liabilities:		
Asbestos-related liabilities	739.7	775.7
Retirement-related liabilities	269.4	301.6
Other	351.9	355.5
Total other non-current liabilities	1,361.0	1,432.8
Common stock	2.5	2.5
Capital in excess of par value	1,127.1	1,118.7
Retained earnings	5,127.3	4,531.0
Accumulated other comprehensive loss	(609.2)	(490.0)
Common stock held in treasury	(1,581.3)	(1,445.4)
Total BorgWarner Inc. stockholders' equity	4,066.4	3,716.8
Noncontrolling interest	103.8	109.1
Total equity	4,170.2	3,825.9
Total liabilities and equity	$9,716.4	$9,787.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except share and per share amounts)	2018	2017	2018	2017
Net sales	$2,478.5	$2,416.2	$7,956.8	$7,212.9
Cost of sales	1,962.9	1,894.6	6,270.2	5,662.1
Gross profit	515.6	521.6	1,686.6	1,550.8
Selling, general and administrative expenses	230.5	225.0	719.9	659.1
Other expense, net	7.1	22.0	42.4	27.5
Operating income	278.0	274.6	924.3	864.2
Equity in affiliates' earnings, net of tax	(15.2)	(14.4)	(38.4)	(38.5)
Interest income	(1.5)	(1.3)	(4.4)	(4.2)
Interest expense and finance charges	14.4	17.6	45.4	53.6
Other postretirement income	(2.4)	(1.3)	(7.4)	(3.9)
Earnings before income taxes and noncontrolling interest	282.7	274.0	929.1	857.2
Provision for income taxes	66.8	79.4	192.1	241.9
Net earnings	215.9	194.6	737.0	615.3
Net earnings attributable to the noncontrolling interest, net of tax	12.1	9.7	36.3	29.2
Net earnings attributable to BorgWarner Inc.	$203.8	$184.9	$700.7	$586.1
Earnings per share — basic	$0.98	$0.88	$3.36	$2.78
Earnings per share — diluted	$0.98	$0.88	$3.34	$2.77
Weighted average shares outstanding (thousands):				
Basic	207,471	209,803	208,505	210,657
Diluted	208,738	211,013	209,787	211,575
Dividends declared per share	$0.17	$0.14	$0.51	$0.42

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Net earnings attributable to BorgWarner Inc.	$203.8	$184.9	$700.7	$586.1
Other comprehensive income (loss)				
Foreign currency translation adjustments*	(43.7)	64.2	(124.2)	186.6
Hedge instruments*	1.6	(1.7)	(0.1)	(5.2)
Defined benefit postretirement plans*	0.5	(1.8)	5.1	(6.2)
Other*	—	—	—	1.2
Total other comprehensive (loss) income attributable to BorgWarner Inc.	(41.6)	60.7	(119.2)	176.4
Comprehensive income attributable to BorgWarner Inc.*	162.2	245.6	581.5	762.5
Net earnings attributable to noncontrolling interest, net of tax	12.1	9.7	36.3	29.2
Other comprehensive (loss) income attributable to the noncontrolling interest*	(2.4)	1.1	(6.5)	4.5
Comprehensive income	$171.9	$256.4	$611.3	$796.2

* Net of income taxes.

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(in millions)	2018	2017
OPERATING		
Net earnings	$737.0	$615.3
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	325.8	302.0
Stock-based compensation expense	37.6	35.5
Deferred income tax (benefit) provision	(36.6)	39.5
Restructuring expense, net of cash paid	34.7	3.5
Equity in affiliates' earnings, net of dividends received, and other	(21.6)	(23.7)
Net earnings adjusted for non-cash charges to operations	1,076.9	972.1
Changes in assets and liabilities:		
Receivables	(110.8)	(232.0)
Inventories	(80.4)	(70.8)
Prepayments and other current assets	(43.2)	(9.1)
Accounts payable and accrued expenses	(201.4)	49.8
Income taxes payable	(53.4)	(18.1)
Other assets and liabilities	(31.4)	(68.0)
Net cash provided by operating activities	556.3	623.9
INVESTING		
Capital expenditures, including tooling outlays	(394.3)	(389.7)
Payments for business acquired, net of cash acquired	—	(180.6)
Payments for venture capital investment	(4.2)	(2.0)
Proceeds from asset disposals and other	5.5	1.6
Net cash used in investing activities	(393.0)	(570.7)
FINANCING		
Net (decrease) increase in notes payable	(29.8)	124.9
Additions to long-term debt, net of debt issuance costs	20.3	—
Repayments of long-term debt, including current portion	(15.0)	(14.5)
Payments for debt issuance cost	—	(2.4)
Payments for purchase of treasury stock	(150.0)	(100.0)
Payments for stock-based compensation items	(15.1)	(2.1)
Dividends paid to BorgWarner stockholders	(106.3)	(88.5)
Dividends paid to noncontrolling stockholders	(27.5)	(23.6)
Net cash used in financing activities	(323.4)	(106.2)
Effect of exchange rate changes on cash	(23.4)	23.6
Net decrease in cash	(183.5)	(29.4)
Cash at beginning of year	545.3	443.7
Cash at end of period	$361.8	$414.3
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$67.0	$72.1

Income taxes, net of refunds	$266.7	$219.9
Non-cash investing transactions		
Liabilities assumed from business acquired	$—	$19.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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BORGWARNER INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of BorgWarner Inc. and Consolidated Subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial position, results of operations and cash flow activity required by GAAP for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair statement of results have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet as of December 31, 2017 was derived from the audited financial statements as of that date. For further information, refer to the Consolidated Financial Statements and Footnotes thereto included in the Company's Amended Annual Report on Form 10-K/A for the year ended December 31, 2017 that was filed with the Securities and Exchange Commission (the "SEC") on September 28, 2018.

Certain prior period amounts have been reclassified to conform to current period presentation. During the fourth quarter of 2017, the Company identified a prior period error related to the exclusion of the net earnings attributable to the noncontrolling interest in the first three and nine months of the 2017 Consolidated Statement of Comprehensive Income. The inclusion of this amount increased total Comprehensive Income by $9.7 million and $29.2 million for the three and nine months ended September 30, 2017, respectively.

The Company concluded that the error was not material to the financial statements of any prior annual or interim period and therefore, amendments of previously filed reports are not required. In accordance with ASC Topic 250, "Accounting Changes and Error Corrections," we have corrected the error for all prior periods presented by revising the consolidated financial statements appearing herein. The revision had no impact on the Consolidated Balance Sheets, Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and accompanying notes, as well as the amounts of revenues and expenses reported during the periods covered by those financial statements and accompanying notes. Actual results could differ from these estimates.

(2) New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)." It requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance (Subtopic 350-40). This guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)." The new standard (i) requires the removal of disclosures that are no longer considered cost beneficial; (ii) clarifies specific requirements of certain disclosures; (iii)

adds new disclosure requirements, including the weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and reasons

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for significant gains and losses related to changes in the benefit obligation. This guidance is effective for annual periods beginning after December 15, 2020 and early adoption is permitted. The Company is currently assessing the guidance and will include enhanced disclosures in the consolidated financial statements upon adoption.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820)." It removes disclosure requirements on fair value measurements including the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. It also amends and clarifies certain disclosures and adds new disclosure requirements including the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until the effective date. The Company is currently assessing the guidance and does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718)." It expands the scope of the employee share-based payments guidance, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. This guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)." It allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("the Tax Act"). In addition, the new guidance requires expanded disclosures including a description of the accounting policy releasing disproportionate income tax effects from accumulated other comprehensive income. This guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815)." It expands and refines hedge accounting for both nonfinancial and financial risk components and reduces complexity in fair value hedges of interest rate risk. It eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements and modifies the accounting for components excluded from assessment of hedge effectiveness. In addition, the new guidance requires expanded disclosures as it pertains to the effect of hedging on individual income statement lines, including the effects of components excluded from the assessment of effectiveness. The guidance is effective prospectively for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted this guidance during the first quarter of 2018 and the impact on the consolidated financial statements was not material. Refer to the Financial Instruments footnote to the Condensed Consolidated Financial Statements for expanded disclosures.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." It requires disaggregating the service cost component from the other components of net benefit cost, provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization when applicable. This guidance is effective for interim and annual periods beginning after December 15, 2017. During the first quarter of 2018, the

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Company retrospectively adopted the presentation of service cost separate from the other components of net benefit costs. As a result, Cost of sales of $1.1 million and $3.4 million and Selling, general and administrative expenses of $0.2 million and $0.5 million for the three and nine months ended September 30, 2017, respectively, have been reclassified to Other postretirement income as a separate line item in the Condensed Consolidated Statements of Operations.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business." It revises the definition of a business and provides a framework to evaluate when an input and a substantive process are present in an acquisition to be considered a business. This guidance is effective for annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018 and there was no impact to the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash." It requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018 and there was no impact to the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." It provides guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice in how they are classified in the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018 and there was no impact to the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)." It replaces the current incurred loss impairment method with a new method that reflects expected credit losses. Under this new model an entity would recognize an impairment allowance equal to its current estimate of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under this guidance, lessees will be required to recognize a right-of-use asset and a lease liability for leases with a term more than 12 months, including operating leases defined under previous GAAP. The recognition and presentation of expenses will depend on classification as a finance or operating lease. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The Company has elected not to restate comparative periods upon adoption, but record a cumulative-effect adjustment to the opening balance of retained earnings at January 1, 2019. The Company intends to adopt certain additional practical expedients and will carry forward historical conclusions related to (1) contracts that contain leases, (2) existing lease classification, and (3) initial direct costs. The Company is currently evaluating all forms of leasing arrangements and determining potential system requirements that will be necessary to implement the new standard. The Company continues to evaluate the impact this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." It requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. It also requires separate presentation of financial assets and financial liabilities

by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. This guidance is effective for interim

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and fiscal years beginning after December 15, 2017. The Company adopted this guidance in the first quarter of 2018 with no impact to the consolidated financial statements and elected the measurement alternative for equity investments without readily determinable fair values.

In May 2014, the FASB amended the Accounting Standards Codification to add Topic 606 and issued ASU 2014-09, "Revenue from Contracts with Customers," outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseding the then applicable revenue recognition guidance. The new guidance requires new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We adopted this new standard and all the related amendments (“new revenue standard”) effective January 1, 2018 and applied it to all contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of adoption of the new standard to be immaterial to our sales and net income on an ongoing basis.

Revenue is recognized when performance obligations under the terms of a contract are satisfied, which generally occurs with the transfer of control of our products. For most of our products, transfer of control occurs upon shipment or delivery, however, a limited number of our customer arrangements for our highly customized products with no alternative use provide us with the right to payment during the production process. As a result, for these limited arrangements, under the new revenue standard, revenue is recognized as goods are produced and control transfers to the customer. The Company recorded a transition adjustment as of January 1, 2018, which increased retained earnings by $2.0 million related to these arrangements.
The Company also has a limited number of arrangements with customers where the price paid by the customer is dependent on the volume of product purchased over the term of the arrangement. Under the new revenue standard, the Company estimates the volumes to be sold over the term of the arrangement and recognizes revenue based on the estimated amount of consideration to be received from these arrangements. The Company recorded a transition adjustment, which decreased the opening balance of retained earnings by $0.1 million related to these arrangements.
The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of new revenue standard was as follows:

(In millions)	Balance at December 31, 2017	Adjustments due to ASC 606	Balance at January 1, 2018
Inventories, net	$ 766.3	$ (7.4)	$758.9
Prepayments and other current assets (including contract assets)	$ 145.4	$ 9.4	$154.8
Accounts payable and other accrued expenses (including contract liabilities)	$ 2,270.3	$ 0.1	$2,270.4
Retained earnings	$ 4,531.0	$ 1.9	$4,532.9

The impact from adopting the new revenue standard as compared to the previous revenue guidance is immaterial to our Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and Consolidated Balance Sheets as of September 30, 2018.

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(3) Revenue from Contracts with Customers

The Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments to all contracts using the modified retrospective method effective January 1, 2018. The Company manufactures and sells products, primarily to OEMs of light vehicles, and to a lesser extent, to other OEMs of commercial vehicles, off-highway vehicles, certain Tier One vehicle systems suppliers and into the aftermarket. Although the Company may enter into long-term supply arrangements with its major customers, the prices and volumes are not fixed over the life of the arrangements, and a contract does not exist for purposes of applying ASC 606 until volumes are contractually known. Revenue is recognized when performance obligations under the terms of a contract are satisfied, which generally occurs with the transfer of control of our products. For most of our products, transfer of control occurs upon shipment or delivery, however, a limited number of our customer arrangements for our highly customized products with no alternative use provide us with the right to payment during the production process. As a result, for these limited arrangements, revenue is recognized as goods are produced and control transfers to the customer. The Company recorded a contract asset of $10.5 million and $9.4 million at September 30, 2018 and January 1, 2018 for these arrangements. These amounts are reflected in Prepayments and other current assets in our consolidated balance sheet.

Revenue is measured at the amount of consideration we expect to receive in exchange for transferring the goods. The Company has a limited number of arrangements with customers where the price paid by the customer is dependent on the volume of product purchased over the term of the arrangement. In other limited arrangements, the Company will provide a rebate to customers based on the volume of products purchased during the course of the arrangement. The Company estimates the volumes to be sold over the term of the arrangement and recognizes revenue based on the estimated amount of consideration to be received from these arrangements. As a result of these arrangements, the Company recognized a liability of $5.0 million and $18.4 million at September 30, 2018 and December 31, 2017. These amounts are reflected in Accounts payable and accrued expenses in our consolidated balance sheet.

The Company’s payment terms with customers are customary and vary by customer and geography but typically range from 30 to 90 days. We have evaluated the terms of our arrangements and determined that they do not contain significant financing components. The Company provides warranties on some of its products. Provisions for estimated expenses related to product warranty are made at the time products are sold. See the Product Warranty footnote to the Consolidated Financial Statements for more information on product warranties. Shipping and handling fees billed to customers are included in sales, while costs of shipping and handling are included in cost of sales. The Company has elected to apply the accounting policy election available under ASC 606 and accounts for shipping and handling activities as a fulfillment cost.

In limited instances, certain customers have provided payments in advance of receiving related products, typically at the onset of an arrangement prior to the beginning of production. These contract liabilities are reflected as Accounts payable and accrued expenses and Other non-current liabilities in our consolidated balance sheet and were $12.6 million and $17.6 million at September 30, 2018 and $12.1 million and $21.9 million at December 31, 2017, respectively. These amounts are reflected as revenue over the term of the arrangement (typically 3 to 7 years) as the underlying products are shipped.

The Company continually seeks business development opportunities and at times provides customer incentives for new program awards. The Company evaluates the underlying economics of each amount of consideration payable to a customer to determine the proper accounting by understanding the reasons for the payment, the rights and obligations resulting from the payment, the nature of the promise in the contract, and other relevant facts and circumstances. When the Company determines that the payments are incremental and incurred only if the new business is obtained and expects to recover these costs from the customer over the term of the new business arrangement, the Company capitalizes these costs. The Company recognizes a reduction to revenue as products that the upfront payments are related to are transferred to the customer based on the total amount of products expected to be sold over the term of the arrangement (generally 3 to 7 years). The Company evaluates the amounts capitalized each period end for

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recoverability and expenses any amounts that are no longer expected to be recovered over the term of the business arrangement. The Company had $26.8 million and $18.2 million recorded in Prepayments and other current assets, and $180.7 million and $180.4 million recorded in Other non-current assets in the consolidated balance sheet at September 30, 2018 and December 31, 2017.

The following table represents a disaggregation of revenue from contracts with customers by segment and region:

	Three months ended September 30, 2018			Three months ended September 30, 2017		
(In millions)	Engine	Drivetrain	Total	Engine	Drivetrain	Total
North America	$393.0	$ 451.7	$844.7	$362.5	$ 398.9	$761.4
Europe	690.3	208.7	899.0	693.3	238.2	931.5
Asia	386.3	307.8	694.1	410.2	276.2	686.4
Other	32.1	8.6	40.7	28.5	8.4	36.9
Total	$1,501.7	$ 976.8	$2,478.5	$1,494.5	$ 921.7	$2,416.2

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
(In millions)	Engine	Drivetrain	Total	Engine	Drivetrain	Total
North America	$1,186.5	$ 1,341.1	$2,527.6	$1,145.1	$ 1,260.0	$2,405.1
Europe	2,343.1	747.8	3,090.9	2,057.6	704.0	2,761.6
Asia	1,238.4	981.6	2,220.0	1,167.2	781.2	1,948.4
Other	94.8	23.5	118.3	75.3	22.5	97.8
Total	$4,862.8	$ 3,094.0	$7,956.8	$4,445.2	$ 2,767.7	$7,212.9

(4) Research and Development Expenditures

The Company's net Research & Development ("R&D") expenditures are included in selling, general and administrative expenses of the Condensed Consolidated Statements of Operations. Customer reimbursements are netted against gross R&D expenditures as they are considered a recovery of cost. Customer reimbursements for prototypes are recorded net of prototype costs based on customer contracts, typically either when the prototype is shipped or when it is accepted by the customer. Customer reimbursements for engineering services are recorded when performance obligations are satisfied in accordance with the contract and accepted by the customer. Financial risks and rewards transfer upon shipment, acceptance of a prototype component by the customer or upon completion of the performance obligation, as stated in the respective customer agreement.

The following table presents the Company’s gross and net expenditures on R&D activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Gross R&D expenditures	$121.8	$115.2	$385.9	$346.9
Customer reimbursements	(13.8)	(13.7)	(48.8)	(44.1)
Net R&D expenditures	$108.0	$101.5	$337.1	$302.8

The Company has contracts with several customers at the Company's various R&D locations. No such contract exceeded 5% of annual net R&D expenditures in any of the periods presented.

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(5) Other Expense, net

Items included in other expense, net consist of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Restructuring expense	$5.7	$13.3	$44.4	$13.3
Merger, acquisition and divestiture expense	1.6	6.4	4.8	6.4
Lease termination settlement	—	—	—	5.3
Other (income) expense	(0.2)	2.3	(6.8)	2.5
Other expense, net	$7.1	$22.0	$42.4	$27.5

During the three and nine months ended September 30, 2018, the Company recorded restructuring expense of $5.7 million and $44.4 million, respectively. During the three and nine months ended September 30, 2017, the Company recorded restructuring expense of $13.3 million. These restructuring expenses primarily relate to Drivetrain and Engine segment actions designed to improve future profitability and competitiveness. See the Restructuring footnote to the Condensed Consolidated Financial Statements for further discussion of these expenses.

During the three and nine months ended September 30, 2018, the Company recorded $1.6 million and $4.8 million of merger, acquisition and divestiture expense primarily related to professional fees associated with divestiture activities for the non-core pipe and thermostat product lines, respectively. See the Assets and Liabilities Held for Sale footnote to the Condensed Consolidated Financial Statements for further discussion.

On September 27, 2017, the Company acquired 100% of the equity interests of Sevcon, Inc. ("Sevcon"), a global player in electrification technologies, serving customers in the U.S., U.K., France, Germany, Italy, China and the Asia Pacific region. As a result, the Company recorded $6.4 million of transaction related professional fees during the three months ended September 30, 2017. See the Recent Transactions footnote to the Condensed Consolidated Financial Statements for further discussion.

During the first three months of 2017, the Company recorded a loss of $5.3 million related to the termination of a long-term property lease for a manufacturing facility located in Europe.

During the first three months of 2018, the Company recorded a gain of approximately $4.0 million related to the settlement of a commercial contract for an entity acquired in the 2015 Remy acquisition.

(6) Income Taxes

The Company's provision for income taxes is based upon an estimated annual tax rate for the year applied to federal, state and foreign income. On a quarterly basis, the annual effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

At September 30, 2018, the Company's effective tax rate for the first nine months was 20.7%. This rate includes income tax expenses of $0.9 million related to a commercial settlement gain, and reductions of income tax expense of $9.5 million related to restructuring expense, $0.2 million related to merger, acquisition and divestiture expense, $0.4 million related to other expense, $20.0 million related to adjustments to measurement period provisional estimates

associated with the Tax Act, $21.6 million primarily related to an increase to our deferred tax asset due to the Company's ability to record a tax benefit for certain foreign tax credits now available due to actions the Company took during the year, and $11.3 million for other one-time tax adjustments, primarily due to changes in tax filing positions.

At September 30, 2017, the Company's effective tax rate for the first nine months was 28.2%. This rate includes reductions of income tax expense of $1.2 million, $0.3 million, and $11.7 million which are associated with restructuring expense, merger and acquisition expense, and one-time tax adjustments, primarily resulting from tax audit settlements.

The annual effective tax rates differ from the U.S. statutory rate primarily due to foreign rates which differ from those in the U.S., U.S. taxes on foreign earnings, the realization of certain business tax credits, including foreign tax credits, and favorable permanent differences between book and tax treatment for certain items, including equity in affiliates' earnings.

In accordance with guidance provided by Staff Accounting Bulletin No 118 (SAB 118), as of December 31, 2017, we had not completed our accounting for the tax effects of the Tax Act and had recorded provisional estimates for significant items including the following: (i) the effects on our existing deferred balances, (ii) the one-time transition tax, and (iii) our indefinite reinvestment assertion. The measurement period begins in the reporting period that includes the Tax Act’s enactment date and ends when the additional information is obtained, prepared, or analyzed to complete the accounting requirements under ASC Topic 740. The measurement period should not extend beyond one year from the enactment date.

As of September 30, 2018, the Company evaluated the provisional amounts initially recorded for the year ended December 31, 2017 and recorded adjustments based on updates to the Company's assumptions and the application of additional interpretative guidance issued in the second and third quarter of 2018.

For the three months ended September 30, 2018, these adjustments resulted in (i) an increase in our existing deferred tax asset balances (ii) a net increase to the one-time transition tax, and (iii) a decrease in the deferred tax liability associated with our indefinite reinvestment assertion totaling a net tax benefit of $6.6 million in the third quarter of 2018.

For the nine months ended September 30, 2018, these adjustments resulted in (i) an increase in our existing deferred tax asset balances (ii) no change to the one-time transition tax, and (iii) a decrease in the deferred tax liability associated with our indefinite reinvestment assertion totaling a net tax benefit of $20.0 million.

As of September 30, 2018, the Company has completed its accounting for the effects of tax reform as they relate to the one-time transition tax. The Company will continue to evaluate the remaining provisional amounts recorded for the year ended December 31, 2017 throughout the remainder of the measurement period.

Deferred tax assets, which are reflected in Other non-current assets in our consolidated balance sheet, increased from $121.2 million at December 31, 2017 to $170.9 million at September 30, 2018, primarily due to the Company’s ability to record a tax benefit for certain foreign tax credits now available in the third quarter of 2018.

We have made an accounting policy election to treat the future tax impacts of the global intangible low tax income (GILTI) provisions of the Tax Act as a period cost to the extent applicable.

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(7) Inventories, net

Certain U.S. inventories are measured by the last-in, first-out ("LIFO") method at the lower of cost or market, while other U.S. and foreign operations use the first-in, first-out ("FIFO") or average-cost methods at the lower of cost and net realizable value. Inventories consisted of the following:

(in millions)	September 30, 2018	December 31, 2017
Raw material and supplies	$ 512.1	$ 469.7
Work in progress	122.6	126.7
Finished goods	190.7	183.0
FIFO inventories	825.4	779.4
LIFO reserve	(15.1)	(13.1)
Inventories, net	$ 810.3	$ 766.3

(8) Property, Plant and Equipment, net

(in millions)	September 30, 2018	December 31, 2017
Land, land use rights and buildings	$ 880.5	$ 899.2
Machinery and equipment	2,796.9	2,734.4
Capital leases	—	1.5
Construction in progress	371.7	410.5
Total property, plant and equipment, gross	4,049.1	4,045.6
Less: accumulated depreciation	(1,433.6)	(1,391.7)
Property, plant and equipment, net, excluding tooling	2,615.5	2,653.9
Tooling, net of amortization	212.3	209.9
Property, plant and equipment, net	$ 2,827.8	$ 2,863.8

As of September 30, 2018 and December 31, 2017, accounts payable of $62.7 million and $106.5 million, respectively, were related to property, plant and equipment purchases.

Interest costs capitalized for the nine months ended September 30, 2018 and 2017 were $16.6 million and $14.2 million, respectively.

(9) Product Warranty

The Company provides warranties on some, but not all, of its products. The warranty terms are typically from one to three years. Provisions for estimated expenses related to product warranty are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claim settlements as well as product manufacturing and industry developments and recoveries from third parties. Management actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims. Management believes that the warranty accrual is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the accrual.

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The following table summarizes the activity in the product warranty accrual accounts:

(in millions)	2018	2017
Beginning balance, January 1	$111.5	$95.3
Provisions	47.5	51.3
Acquisition	0.2	0.4
Payments	(45.2)	(45.7)
Translation adjustment	(3.7)	5.4
Ending balance, September 30	$110.3	$106.7

In the nine months ended September 30, 2018, warranty provisions decreased by $3.8 million from the same period in 2017 as the result of fewer product defect claims from customers in the Company's Engine segment.

The product warranty liability is classified in the Condensed Consolidated Balance Sheets as follows:

(in millions)	September 30, 2018	December 31, 2017
Accounts payable and accrued expenses	$ 64.7	$ 69.0
Other non-current liabilities	45.6	42.5
Total product warranty liability	$ 110.3	$ 111.5

(10) Notes Payable and Long-Term Debt

As of September 30, 2018 and December 31, 2017, the Company had short-term and long-term debt outstanding as follows:

(in millions)	September 30, 2018	December 31, 2017
Short-term debt		
Short-term borrowings	$ 35.9	$ 68.8
Long-term debt		
8.00% Senior notes due 10/01/19 ($134 million par value)	135.9	137.4
4.625% Senior notes due 09/15/20 ($250 million par value)	251.1	251.4
1.80% Senior notes due 11/7/22 (€500 million par value)	576.4	595.7
3.375% Senior notes due 03/15/25 ($500 million par value)	496.5	496.1
7.125% Senior notes due 02/15/29 ($121 million par value)	119.0	118.9
4.375% Senior notes due 03/15/45 ($500 million par value)	493.7	493.5
Term loan facilities and other	27.8	26.5
Total long-term debt	2,100.4	2,119.5
Less: current portion	14.8	15.8
Long-term debt, net of current portion	$ 2,085.6	$ 2,103.7

In July 2016, the Company terminated interest rate swaps which had the effect of converting $384.0 million of fixed rate notes to variable rates. The gain on the termination was recorded as an increase to the notes and is being amortized as a reduction to interest expense over the remaining terms of the notes. The unamortized gain related to these swap terminations as of September 30, 2018 was $2.2 million and $0.5 million on the 4.625% and 8.00% notes, respectively. The unamortized gain related to these swap terminations as of December 31, 2017 was $2.9 million and $0.8 million on the 4.625% and 8.00% notes, respectively.

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The Company terminated fixed to floating interest rate swaps in 2009. The gain on the termination was recorded as an increase to the notes and is being amortized as a reduction to interest expense over the remaining term of the notes. The unamortized gain related to this swap termination at September 30, 2018 and December 31, 2017 was $1.6 million and $2.7 million, respectively, on the 8.00% notes.

The weighted average interest rate on short-term borrowings outstanding as of September 30, 2018 and December 31, 2017 was 4.2% and 3.1%, respectively. The weighted average interest rate on all borrowings outstanding, including the effects of outstanding swaps, as of September 30, 2018 and December 31, 2017 was 3.4% and 3.8%, respectively.

The Company has a $1.2 billion multi-currency revolving credit facility, which includes a feature that allows the Company's borrowings to be increased to $1.5 billion. The facility provides for borrowings through June 29, 2022. The Company has one key financial covenant as part of the credit agreement which is a debt to EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization") ratio. The Company was in compliance with the financial covenant at September 30, 2018. At September 30, 2018 and December 31, 2017, the Company had no outstanding borrowings under this facility.

The Company's commercial paper program allows the Company to issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding of $1.2 billion. Under this program, the Company may issue notes from time to time and will use the proceeds for general corporate purposes. The Company had no outstanding borrowings under this program as of September 30, 2018 and December 31, 2017.

The total current combined borrowing capacity under the multi-currency revolving credit facility and commercial paper program cannot exceed $1.2 billion.

As of September 30, 2018 and December 31, 2017, the estimated fair values of the Company’s senior unsecured notes totaled $2,082.2 million and $2,209.1 million, respectively. The estimated fair values were $9.6 million and $116.1 million higher than their carrying value at September 30, 2018 and December 31, 2017, respectively. Fair market values of the senior unsecured notes are developed using observable values for similar debt instruments, which are considered Level 2 inputs as defined by ASC Topic 820. The carrying values of the Company's multi-currency revolving credit facility and commercial paper program approximates fair value. The fair value estimates do not necessarily reflect the values the Company could realize in the current markets.

The Company had outstanding letters of credit of $32.9 million and $31.4 million at September 30, 2018 and December 31, 2017, respectively. The letters of credit typically act as guarantees of payment to certain third parties in accordance with specified terms and conditions.

(11) Fair Value Measurements

ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair values as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;
Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques noted in ASC Topic 820:

A. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets or liabilities, such as a business.
B. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
C. Income approach: Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing and excess earnings models).

The following tables classify assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

		Basis of fair value measurements			
(in millions)	Balance at September 30, 2018	Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique
Assets:					
Foreign currency contracts	$ 1.3	$ —	$ 1.3	$ —	A
Net investment hedge contracts	$ 10.7	$ —	$ 10.7	$ —	A
Other long-term receivables (insurance settlement agreement note receivable)	$ 43.7	$ —	$ 43.7	$ —	C
Liabilities:					
Foreign currency contracts	$ 3.3	$ —	$ 3.3	$ —	A
Net investment hedge contracts	$ 0.3	$ —	$ 0.3	$ —	A
Commodity contracts	$ 0.2	$ —	$ 0.2	$ —	A

		Basis of fair value measurements			
(in millions)	Balance at December 31, 2017	Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Valuation technique
Assets:					
Foreign currency contracts	$ 1.7	$ —	$ 1.7	$ —	A
Other long-term receivables (insurance settlement agreement note receivable)	$ 42.9	$ —	$ 42.9	$ —	C

Liabilities:				
Foreign currency contracts	$ 5.0	$ —	$ 5.0	$ —A

(12) Financial Instruments

The Company's financial instruments include cash and marketable securities. Due to the short-term nature of these instruments, their book value approximates their fair value. The Company's financial instruments may include long-term debt, interest rate and cross-currency swaps, commodity derivative contracts and foreign currency derivative contracts. All derivative contracts are placed with counterparties that have an S&P, or equivalent, investment grade credit rating at the time of the contracts' placement. At September 30, 2018 and December 31, 2017, the Company had no derivative contracts that contained credit risk related contingent features.

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The Company uses certain commodity derivative contracts to protect against commodity price changes related to forecasted raw material and component purchases. The Company primarily utilizes forward and option contracts, which are designated as cash flow hedges. At September 30, 2018, the following commodity derivative contracts were outstanding. At December 31, 2017, there were no commodity derivative contracts outstanding.

Commodity	Commodity derivative contracts Volume hedged September 30, 2018	Units of measure	Duration
Copper	327.9	Metric Tons	Dec - 19

The Company manages its interest rate risk by balancing its exposure to fixed and variable rates while attempting to optimize its interest costs. The Company selectively uses interest rate swaps to reduce market value risk associated with changes in interest rates (fair value hedges). At September 30, 2018 and December 31, 2017, the Company had no outstanding interest rate swaps.

The Company uses foreign currency forward and option contracts to protect against exchange rate movements for forecasted cash flows (cash flow hedges), remeasurement exposures that affect earnings (non-designated hedges), and exposures associated with the Company’s net investments in certain foreign operations (net investment hedges). Forecasted cash flows may include capital expenditures, inventory purchases, operating expenses or sales transactions designated in currencies other than the functional currency of the operating unit. The Company has also designated its Euro-denominated debt as a net investment hedge of the Company's investment in a European subsidiary. Foreign currency derivative contracts require the Company, at a future date, to either buy or sell foreign currency in exchange for the operating units' local currency. At September 30, 2018 and December 31, 2017, the following foreign currency derivative contracts were outstanding:

Foreign currency derivatives (in millions)

Functional currency	Traded currency	Notional in traded currency September 30, 2018	Notional in traded currency December 31, 2017	Ending Duration
Brazilian real	Euro	0.9	1.1	Dec - 18
British pound	Euro	8.8	—	Dec - 18
British pound	US dollar	2.9	—	Dec - 18
Chinese renminbi	US dollar	—	36.0	Sep - 18
Chinese renminbi	Euro	—	18.6	Jun - 18
Euro	Chinese renminbi	18.3	85.0	Dec - 18
Euro	British pound	1.0	3.9	Dec - 18
Euro	Japanese yen	281.3	1,311.3	Dec - 18
Euro	Swedish krona	467.6	267.4	Jun -19
Euro	US dollar	13.3	56.5	Mar - 19
Japanese yen	Chinese renminbi	24.7	—	Dec - 18
Japanese yen	US dollar	0.8	—	Dec - 18
Korean won	Euro	0.3	3.1	Dec - 18
Korean won	Japanese yen	202.1	619.0	Dec - 18
Korean won	US dollar	16.3	11.2	Dec - 18
Swedish krona	Euro	70.2	109.7	Jan - 20

US dollar	Euro	50.0	42.0	Dec - 18
US dollar	Korean won	44,902.3	—	Dec - 18
US dollar	Mexican peso	139.2	—	Dec - 18

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The Company selectively uses cross-currency swaps to hedge the foreign currency exposure associated with our net investment in certain foreign operations (net investment hedges). At September 30, 2018, the following cross-currency swap contracts were outstanding. At December 31, 2017, there were no cross-currency swap derivative contracts outstanding.

	Cross-Currency Swaps		
(in millions)	Notional in USD	Notional in Local Currency	Duration
Fixed $ to fixed €	$250.0	€206.2	Sep - 20
Fixed $ to fixed ¥	$100.0	¥10,977.5	Feb - 23

At September 30, 2018 and December 31, 2017, the following amounts were recorded in the Condensed Consolidated Balance Sheets as being payable to or receivable from counterparties:

(in millions)	Assets			Liabilities		
Derivatives designated as hedging instruments Under Topic 815:	Location	September 30, 2018	December 31, 2017	Location	September 30, 2018	December 31, 2017
Foreign currency	Prepayments and other current assets	$ 1.2	$ 0.9	Accounts payable and accrued expenses	$ 2.4	$ 3.9
	Other non-current assets	$ —	$ 0.8	Other non-current liabilities	$ 0.7	$ —
Commodity	Prepayments and other current assets	$ —	$ —	Accounts payable and accrued expenses	$ 0.2	$ —
Net investment hedges	Prepayments and other current assets	$ 0.7	$ —	Accounts payable and accrued expenses	$ 0.3	$ —
	Other non-current assets	$ 10.0	$ —	Other non-current liabilities	$ —	$ —
Derivatives not designated as hedging instruments						
Foreign currency	Prepayments and other current assets	$ 0.1	$ —	Accounts payable and accrued expenses	$ 0.2	$ 1.1

Effectiveness for cash flow hedges is assessed at the inception of the hedging relationship and quarterly, thereafter. Gains and losses arising from these contracts that are included in the assessment of effectiveness are deferred into accumulated other comprehensive income (loss) ("AOCI") and reclassified into income as the underlying operating transactions are recognized. These realized gains or losses offset the hedged transaction and are recorded on the same line in the statement of operations. The initial value of any component excluded from the assessment of effectiveness will be recognized in income using a systematic and rational method over the life of the hedging instrument. Any difference between the change in fair value of the excluded component and amounts recognized in income under that systematic and rational method will be recognized in AOCI.

Effectiveness for net investment hedges is assessed at the inception of the hedging relationship and quarterly, thereafter. Gains and losses arising from these contracts that are included in the assessment of effectiveness are deferred into foreign currency translation adjustments and only released when the subsidiary being hedged is sold or substantially liquidated. The initial value of any component excluded from the assessment of effectiveness will be

recognized in income using a systematic and rational method over the life of the hedging instrument. Any difference between the change in fair value of the excluded component and amounts recognized in income under that systematic and rational method will be recognized in AOCI.

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The table below shows deferred gains (losses) reported in AOCI as well as the amount expected to be reclassified to income in one year or less. The amount expected to be reclassified to income in one year or less assumes no change in the current relationship of the hedged item at September 30, 2018 market rates.

(in millions)	Deferred gain (loss) in AOCI at		Gain (loss) expected to be reclassified to income in one year or less
Contract Type	September 30, 2018	December 31, 2017	
Foreign currency	$(2.0)	$ (2.3)	$ (1.3)
Commodity	(0.2)	—	(0.2)
Net investment hedges:			
Foreign currency	3.1	2.9	—
Cross-currency swaps	10.0	—	—
Foreign currency denominated debt	(37.1)	(57.1)	—
Total	$(26.2)	$ (56.5)	$ (1.5)

Derivative instruments designated as cash flow hedge instruments as defined by ASC Topic 815 held during the period resulted in the following gains and (losses) recorded in earnings and other comprehensive income:

	Three Months Ended September 30, 2018			
(in millions)	Net sales	Cost of sales	Selling, general and administrative expenses	Other comprehensive income
Total amounts of earnings and other comprehensive income line items in which the effects of cash flow hedges are recorded	$2,478.5	$1,962.9	$ 230.5	$ (41.6)
Gain (loss) on cash flow hedging relationships:				
Foreign currency				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ 1.7
Gain (loss) reclassified from AOCI to income	$(0.9)	$0.1	$ 0.1	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —
Commodity				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ (0.2)
Gain (loss) reclassified from AOCI to income	$—	$(0.1)	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —

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(in millions)	Nine Months Ended September 30, 2018 Net sales	Cost of sales	Selling, general and administrative expenses	Other comprehensive income
Total amounts of earnings and other comprehensive income line items in which the effects of cash flow hedges are recorded	$7,956.8	$6,270.2	$ 719.9	$ (119.2)
Gain (loss) on cash flow hedging relationships:				
Foreign currency				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ (4.1)
Gain (loss) reclassified from AOCI to income	$(1.7)	$(2.5)	$ (0.2)	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —
Commodity				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ (0.3)
Gain (loss) reclassified from AOCI to income	$—	$(0.1)	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —

(in millions)	Three Months Ended September 30, 2017 Net sales	Cost of sales	Selling, general and administrative expenses	Other comprehensive income
Total amounts of earnings and other comprehensive income line items in which the effects of cash flow hedges are recorded	$2,416.2	$1,894.6	$ 225.0	$ 60.7
Gain (loss) on cash flow hedging relationships:				
Foreign currency				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ (1.5)
Gain (loss) reclassified from AOCI to income	$1.3	$(0.4)	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ (0.1)	$ —
Commodity				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ 0.1
Gain (loss) reclassified from AOCI to income	$—	$0.1	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —

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	Nine Months Ended September 30, 2017			
(in millions)	Net sales	Cost of sales	Selling, general and administrative expenses	Other comprehensive income
Total amounts of earnings and other comprehensive income line items in which the effects of cash flow hedges are recorded	$7,212.9	$5,662.1	$ 659.1	$ 176.4
Gain (loss) on cash flow hedging relationships:				
Foreign currency				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ (2.4)
Gain (loss) reclassified from AOCI to income	$3.3	$0.9	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ (0.1)	$ —
Commodity				
Gain (loss) recognized in other comprehensive income	$—	$—	$ —	$ 0.1
Gain (loss) reclassified from AOCI to income	$—	$0.4	$ —	$ —
Gain (loss) reclassified from AOCI to income as a result that a forecasted transaction is no longer probable of occurring	$—	$—	$ —	$ —

There were no gains and (losses) recorded in income related to components excluded from the assessment of effectiveness for derivative instruments designated as cash flow hedges.

Gains and (losses) on derivative instruments designated as net investment hedges were recognized in other comprehensive income during the periods presented below.

(in millions)	Three months ended		Nine months ended	
Net investment hedges	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Foreign currency	$0.2	$ (3.8)	$0.2	$ (10.3)
Cross-currency swaps	$3.4	$ —	$10.0	$ —
Foreign currency denominated debt	$4.0	$ (19.3)	$20.0	$ (64.5)

Derivatives designated as net investment hedge instruments as defined by ASC Topic 815 held during the period resulted in the following gains and (losses) recorded in Interest expense and finance charges on components excluded from the assessment of effectiveness:

(in millions)	Three months ended		Nine months ended	
Net investment hedges	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cross-currency swaps				